

Message Text

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PAGE 01 BEIRUT 04555 081459Z
ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 ICA-11 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 SAA-01 SES-02 /104 W
-----130468 090503Z /21

R 081433Z AUG 78
FM AMEMBASSY BEIRUT
TO SECSTATE WASHDC 9127
INFO AMEMBASSY ATHENS
AMEMBASSY DAMASCUS
AMEMBASSY JIDDA
AMEMBASSY KUWAIT

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ATHENS FOR RTDO

E.O. 11652: NA
TAGS: EFIN EALR LE
SUBJ: FINANCIAL SCENE: COPING WITH STRESS

REFS: BEIRUT 2681, BEIRUT 1181

1. SUMMARY: GOL HAS SUSPENDED SALES OF TREASURY BONDS
IN LIGHT CURRENT SECURITY CONDITIONS. CENTRAL BANK
CLEARING OPERATIONS ARE REDUCED. U.S. BANKS ARE SHIFTING
RECORDS AND CASH TO SAFE AREAS. CENTRAL BANK GOLD AND
FOREIGN EXCHANGE RESERVES SOARED IN JULY. END SUMMARY.

2. HAVING DEVELOPED OVER THE MONTHS SINCE LAST DECEMBER
A SUCCESSFUL PROGRAM OF INTERNAL BORROWING BASED
ON 90-DAY TREASURY NOTES (REFTELS), GOL ANNOUNCED
AUGUST 6 IT HAS SUSPENDED SALES OF SUCH NOTES UNTIL
FURTHER NOTICE. SUSPENSION OF ROLLOVER OPERATION THROUGH
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PAGE 02 BEIRUT 04555 081459Z

LIFE OF ALL EXTANT NOTES WOULD MEAN GOL WILL TURN BACK
TO LENDERS, WHO ARE MAINLY PRIVATE BANKS, A TOTAL OF
LL 1.1379 BILLION BY SEPTEMBER 30. ACCORDING TO PRESS
REPORTS, REASON FOR SUSPENSION IS GOL INABILITY TO
EMPLOY BORROWINGS GIVEN THE PRESENT SECURITY SITUATION
AND UNWILLINGNESS CONTINUE PAYING INTEREST (2-3/4 PER-
CENT) ON THEM. ANOTHER REASON IS THAT CENTRAL BANK -

BANKING SECTOR - MINFINANCE STAFFING SHORTAGES AND COMMUNICATIONS DIFFICULTIES RENDER IT IMPOSSIBLE FOR TIME BEING TO CARRY OUT BOND SALES. OBSERVERS BELIEVE GOL WILL TEMPORARILY BORROW DIRECTLY FROM CENTRAL BANK AND REFINANCE THROUGH BONDS WHEN MORE PEACEFUL CONDITIONS PERMIT SALES TO RESUME.

3. CENTRAL BANK OPERATIONS CONTINUE AT A REDUCED LEVEL. CHECK-CLEARING OPERATIONS, WHICH RESUMED THREE TIMES PER WEEK JULY 16, WERE CUT TO TWICE WEEKLY JULY 30. THE CLEARING MEETING SCHEDULED FOR AUGUST 7 WAS CANCELLED BECAUSE A NUMBER OF BANKS (FROM EAST BEIRUT) WERE UNABLE TO SEND REPRESENTATIVES. SINCE CENTRAL AND PRIVATE BANK STAFFS ARE PREDOMINANTLY CHRISTIAN, SECOTR HAS SUFFERED POOR ATTENDANCE IN RECENT WEEKS. FOR THAT MATTER, SO HAVE MOST MINISTRIES.

4. BANKS REMAIN EXCESSIVELY LIQUID, WITH DEPOSITORS SEEKING SAFETY OF VAULTS AND MANAGERS DECLINING TO LEND. THERE IS NO RUN ON DEPOSITS; ON THE CONTRARY, SOME U.S. BANKS ARE DISCOURAGING OR LIMITING NEW DEPOSITS. THEIR MANAGERS NATURALLY DO NOT WELCOME RETURN OF TREASURY BILL FUNDS, WHICH WILL SIMPLY INCREASE BANKS' NON-INTEREST-BEARING BALANCES AT CENTRAL BANK. LARGER U.S. BANKS HAVE MOVED LEDGERS AND VAULT CONTENTS OUT OF THEIR MAIN OFFICES ON RIAD SOLH STREET TO SAFER LOCATIONS LIMITED OFFICIAL USE

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PAGE 03 BEIRUT 04555 081459Z

IN HAMRA. CHASE MANHATTAN, WHICH HAS NO BRANCHES, IS LOOKING FOR NEW MAIN OFFICE SPACE IN HAMRA. GENERAL DRIFT IS TOWARD A POSTURE THAT WILL ALLOW OPERATIONS TO CONTINUE AT LOCATIONS IN HAMRA AND DORA/JALL ED-DIB/JOUNIEH LITTORAL IN THE EVENT RIAD SOLH BECOMES UNTENABLE. CENTRAL BANK SOURCES AUGUST 8 DENIED RUMORS THAT CENTRAL BANK MIGHT OPEN A BRANCH IN JOUNIEH (LAND FOR THIS PURPOSE WAS ACTUALLY PURCHASED BEFORE EVENTS OF 1975-76, BUT WE WOULD EXPECT CONSIDERABLE WEST BEIRUT OPPOSITION TO CREATION OF A CENTRAL BANK BRANCH IN JOUNIEH IN PRESENT CIRCUMSTANCES).

5. CENTRAL BANK GOLD AND FOREIGN EXCHANGE HOLDINGS ROSE 9.8 PERCENT DURING JULY, FROM LL 2.437 TO LL 2.673 BILLION. CENTRAL BANK ADVANCES TO GOL INCREASED SHARPLY FROM LL 482 TO LL 882 MILLION. POUND/DOLLAR RATE, WHICH SLIPPED FROM LL 2.90 TO LL 2.99/\$1.00 LAST WEEK, WAS FIRMER AUGUST 8 AT 2.96/\$1.00.

DECONTROL 12/31/79.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 08 aug 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BEIRUT04555
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780325-0297
Format: TEL
From: BEIRUT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780885/aaaacstk.tel
Line Count: 115
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 95f76d66-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 BEIRUT 2681, 78 BEIRUT 1181
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1798098
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL SCENE: COPING WITH STRESS
TAGS: EFIN, EALR, LE
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/95f76d66-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014